A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Friday, October 7, 1927, at 10 o'clock a.m.

PRESENT: Governor Young
Mr. Platt
Mr. James
Mr. Cunningham
Mr. McIntosh
Mr. Eddy, Secretary
Mr. McClelland, Asst. Secretary

PRESENT ALSO: Mr. Wyatt, General Counsel
Mr. Vest, Assistant Counsel

The minutes of the meeting of the Federal Reserve Board held on October 6th were read and approved as amended.

Telegram dated October 6th from the Federal Reserve Agent at San Francisco, advising that he will leave that evening for Washington and that the Board's telegram to Mr. Henry M. Robinson has been delivered, and that it is understood Mr. Robinson will leave for Washington today.

Noted.

Letter dated October 6th and telegram dated October 6th from the Assistant Secretary of the Federal Reserve Bank of New York and the Chairman of the Federal Reserve Bank of San Francisco, respectively, both advising that their boards of directors at meetings on that date made no change in the banks' existing schedules of rates of discount and purchase.

Noted with approval.

Report of Committee on Salaries and Expenditures on letter dated October 4th from the Federal Reserve Agent at Kansas City, requesting approval of the action of the Executive Committee of that bank in voting to extend until November 1st, with full pay, leave of absence on account of illness previously granted Mr. Charles T. Cheever, an employee of the Denver Branch; the Board's Committee recommending approval of the salary

payment involved.

Approved.

Report of Committee on Salaries and Expenditures on letter dated October 5th from the Chairman of the Federal Reserve Bank of Boston, requesting approval of the action of the Board of Directors of that bank in voting to extend leaves of absence on account of illness previously granted Mr. Joseph Buckley and Miss Dorothy M. Roberts, Mr. Buckley to receive half pay, and Miss Roberts full pay; the Board's Committee recommending approval of the salary payments involved.

Approved.

Report of Committee on Examinations on letter dated October 4th from the Federal Reserve Agent at Atlanta, submitting and expressing his concurrence in a recommendation of the Executive Committee of that bank that the Citizens State Bank of Marianna, Florida, be granted an extension of time from October 2, 1927, to January 1, 1928, in which to meet the requirements for improvement in its condition imposed by the Federal Reserve bank in accordance with authority given by the Board at its meeting on June 28th; the Board's Committee recommending approval of the extension.

Approved.

The Board then proceeded with further consideration of its proposed new regulations, Series of 1927. As informally agreed upon at the meeting of the Board yesterday, action was deferred on Article B of Regulation A and on Regulation B, relating to the rediscount of bankers acceptances under Section 13a of the Federal Reserve Act, and to open market purchases under Section 14 of the Act.

Consideration was then given to the provisions of the proposed Regula-

tion C, which was acted upon, section by section, and no changes being suggested, was readopted in the following form:

REGULATION C, SERIES OF 1927

(Superseding Regulation C of 1924)

ACCEPTANCE BY MEMBER BANKS OF DRAFTS AND BILLS OF EXCHANGE [5]

ARTICLE A

ACCEPTANCE OF DRAFTS OR BILLS OF EXCHANGE DRAWN AGAINST DOMESTIC OR FOREIGN SHIPMENTS OF GOODS OR SECURED BY WAREHOUSE RECEIPTS COVERING READILY MARKETABLE STAPLES

SECTION I. STATUTORY PROVISIONS

Under the provisions of the sixth paragraph of section 13 of the Federal reserve act, as amended, any member bank may accept drafts or bills of exchange drawn upon it, having not more than six months' sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods, provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such [6] document conveying or securing title covering readily marketable staples. This paragraph limits the amount which any bank shall accept for any one person, company, firm, or corporation, whether in a foreign or domestic transaction, to an amount not exceeding at any time, in the aggregate, more than 10 per cent of its paid-up and unimpaired capital stock and surplus. This limit , however, does not apply in any case where the accepting bank remains secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance. A trust receipt which permits the customer to have access to or control over the goods will not be considered by Federal reserve banks to be "actual security" within the meaning of section 13. A bill of lading draft, however, is "actual security" even after the documents have been released, provided that the draft is accepted by the drawee upon or before the surrender of the documents. The law also provides that any bank may accept such bills up to an amount not exceeding at any time, in the aggregate, more than one-half of its paid-up and unimpaired capital stock and surplus; or, with the approval of the Federal Reserve Board, up to an amount not exceeding at any time, in the aggregate, more than 100 per cent of its paid-up and unimpaired capital stock and surplus. In no event, however, shall the aggregate amount of acceptances growing out of domestic transactions exceed 50 per cent of such capital stock and surplus.

---

[5] For regulations governing the rediscount of bankers' acceptances by Federal reserve banks, see Regulation A, page _.

[6] A readily marketable staple within the meaning of these regulations may be defined as an article of commerce, agriculture, or industry of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of price as to make (a) the price easily and definitely ascertainable, and (b) the staple itself easy to realize upon by sale at any time.

SECTION II. REGULATIONS

(1) Under the provisions of the law referred to above the Federal Reserve Board has determined that any member bank , having an unimpaired surplus equal to at least 20 per cent of its paid-up capital, which desires to accept drafts or bills of exchange drawn for the purposes described above, up to an amount not exceeding at any time, in the aggregate, 100 per cent of its paid-up and unimpaired capital stock and surplus, may file an application for that purpose with the Federal Reserve Board. Such application must be forwarded through the Federal reserve bank of the district in which the applying bank is located.

(2) The Federal reserve bank shall report to the Federal Reserve Board upon the standing of the applying bank, stating whether the business and banking conditions prevailing in its district warrant the granting of such application.

(3) The approval of any such application may be rescinded upon 90 days' notice to the bank affected.

ARTICLE B

ACCEPTANCE OF DRAFTS OR BILLS OF EXCHANGE DRAWN FOR THE PURPOSE OF CREATING DOLLAR EXCHANGE

SECTION III. STATUTORY PROVISIONS

Section 13 of the Federal reserve act also provides that any member bank may accept drafts or bills of exchange drawn upon it having not more than three months' sight to run, exclusive of days of grace, drawn, under regulations to be prescribed by the Federal Reserve Board, by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions.

No member bank shall accept such drafts or bills of exchange for any one bank to an amount exceeding in the aggregate 10 per cent of the paid-up and unimpaired capital and surplus of the accepting bank unless the draft or bill of exchange is accompanied by documents conveying or securing title or by some other adequate security. No member bank shall accept such drafts or bills in an amount exceeding at any time in the aggregate one-half of its paid-up and unimpaired capital and surplus. This 50 per cent limit is separate and distinct from and not included in the limits placed upon the acceptance of drafts and bills of exchange as described under Article A of this regulation.

SECTION IV. REGULATIONS

Any member bank desiring to accept drafts drawn by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange shall first make an application to the Federal Reserve Board setting forth the usages of trade in the respective countries, dependencies, or insular possessions in which such banks or bankers are located.

If the Federal Reserve Board should determine that the usages of trade in such countries, dependencies, or possessions require the granting of the acceptance facilities applied for, it will notify the applying bank of its approval and will also publish in the Federal Reserve Bulletin the name or names of those countries, dependencies, or possessions in which banks or bankers are authorized to draw on member banks whose applications have been approved for the purpose of furnishing dollar exchange.

The Federal Reserve Board reserves the right to modify or on 90 days' notice to revoke its approval either as to any particular member bank or as to any foreign country or dependency or insular possession of the United States in which it has authorized banks or bankers to draw on member banks for the purpose of furnishing dollar exchange.

The proposed Regulation D, which relates to the reserves of member banks, was passed over by unanimous consent, due to the fact that certain provisions thereof have been referred to the Executive Committee of the Federal Advisory Council for an expression of opinion.

The proposed Regulation E was then considered, and as no changes from the existing regulation have been suggested, was readopted as follows:

REGULATION E, SERIES OF 1927

(Superseding Regulation E of 1924)

PURCHASE OF WARRANTS

SECTION I. STATUTORY REQUIREMENTS

Section 14 of the Federal reserve act reads in part as follows:

Every Federal reserve bank shall have power-

(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board.

SECTION II. DEFINITIONS

Within the meaning of this regulation-

The term "warrant" shall be construed to mean "bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months."

The term "municipality" shall be construed to mean "State, county,

district, political subdivision, or municipality in the continental United States, including irrigation, drainage, and reclamation districts."

The term "net funded indebtedness" shall be construed to mean the legal gross indebtedness of the municipality (including the amount of any school district or other bonds which depend for their redemption upon taxes levied upon property within the municipality) less the aggregate of the following items:

(1) The amount of outstanding bonds or other debt obligations made payable from current revenues;

(2) The amount of outstanding bonds issued for the purpose of providing the inhabitants of a municipality with public utilities, such as waterworks, docks, electric plants, transportation facilities, etc.: Provided, That evidence is submitted showing that the income from such utilities is sufficient for maintenance, for payment of interest on such bonds, and for the accumulation of a sinking fund sufficient for their redemption at maturity;

(3) The amount of outstanding improvement bonds, issued under laws which provide for the levying of special assessments against abutting property in amounts sufficient to insure the payment of interest on the bonds and the redemption thereof at maturity: Provided, That such bonds are direct obligations of the municipality and included in the gross indebtedness of the municipality; and

(4) The total of all sinking funds accumulated for the redemption of the gross indebtedness of the municipality, except sinking funds applicable to bonds described in (1), (2), and (3) above.

SECTION III. CLASS OF WARRANTS ELIGIBLE FOR PURCHASE

Any Federal reserve bank may purchase warrants issued by a municipality in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues, provided-

(a) They are the general obligations of the entire municipality; it being intended to exclude as ineligible for purchase all such obligations as are payable from "local benefit" and "special assessment" taxes when the municipality at large is not directly or ultimately liable;

(b) They are issued in anticipation of taxes or revenues which are due and payable on or before the date of maturity of such warrants; but the Federal Reserve Board may waive this condition in specific cases. For the purposes of this regulation, taxes shall be considered as due and payable on the last day on which they may be paid without penalty;

(c) They are issued by a municipality-

(1) Which has been in existence for a period of 10 years;

(2) Which for a period of 10 years previous to the purchase has not defaulted for longer than 15 days in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it;

(3) Whose net funded indebtedness does not exceed 10 per centum of the valuation of its taxable property, to be ascertained by the last preceding valuation of property for the assessment of taxes.

SECTION IV. "EXISTENCE" AND "NONDEFAULT"

Warrants will be construed to comply with that part of Section III (c) relative to term of existence and nondefault, under the following conditions:

(1) Warrants issued by or in behalf of any municipality which was, subsequent to the issuance of such warrants, consolidated with or merged into an existing political division which meets the requirements of these regulations, will be deemed to be the warrants of such political division: Provided, That such warrants were assumed by such political division under statutes and appropriate proceedings the effect of which is to make such warrants general obligations of such assuming political division and payable, either directly or ultimately, without limitation to a special fund from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.

(2) Warrants issued by or in behalf of any municipality which was, subsequent to the issuance of such warrants, wholly succeeded by a newly organized political division whose term of existence, added to that of such original political division or of any other political division so succeeded, is equal to a period of 10 years will be deemed to be warrants of such succeeding political division: Provided, That during such period none of such political divisions shall have defaulted for a period exceeding 15 days in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it: And provided further, That such warrants were assumed by such new political division under statutes and appropriate proceedings the effect of which is to make such warrants general obligations of such assuming political division and payable, either directly or ultimately, without limitation to a special fund from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.

(3) Warrants issued by or in behalf of any municipality which, prior to such issuance, became the successor of one or more, or was formed by the consolidation or merger of two or more, preexisting political divisions, the term of existence of one or more of which, added to that of such succeeding or consolidated political division, is equal to a period of 10 years, will be deemed to be warrants of a political division which has been in existence for a period of 10 years: Provided, That during such period none of such original, succeeding, or consolidated political divisions shall have defaulted for a period exceeding 15 days in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it.

SECTION V. LIMITATIONS

(a) Except with the approval of the Federal Reserve Board, no Federal reserve bank shall purchase and hold an amount in excess of 25 per cent of the total amount of warrants outstanding at any time and issued in conformity with provisions of section 14(b), above quoted, and actually sold by a municipality.

(b) Except with the approval of the Federal Reserve Board, the aggregate amount invested by any Federal reserve bank in warrants of all kinds shall not exceed at the time of purchase a sum equal to 10 per cent of the deposits kept by its member banks with such Federal reserve bank.

(c) Except with the approval of the Federal Reserve Board, the maximum amount which may be invested at the time of purchase by any Federal reserve bank in warrants of any single municipality shall be limited to the following percentages of the deposits kept in such Federal reserve bank by its member banks:

Five per cent of such deposits in warrants of a municipality of 50,000 population or over;

Three per cent of such deposits in warrants of a municipality of over 30,000 population, but less than 50,000;

One per cent of such deposits in warrants of a municipality of over 10,000 population, but less than 30,000.

(d) Any Federal reserve bank may purchase from any of its member banks warrants of any municipality, indorsed by such member bank, with waiver of demand, notice, and protest if such warrants comply with Sections III and V (b) of these regulations, except that where a period of 10 years is mentioned in III (c) hereof a period of 5 years shall be substituted for the purposes of this clause.

SECTION VI. WARRANTS OF SMALL MUNICIPALITIES

Warrants of a municipality of 10,000 population or less shall be purchased only with the special approval of the Federal Reserve Board.

The population of a municipality shall be determined by the last Federal or State census. Where it can not be exactly determined the Federal Reserve Board will make special rulings.

SECTION VII. OPINION OF COUNSEL

Opinion of recognized counsel on municipal issues or of the regularly appointed counsel of the municipality as to the legality of the issue shall be secured and approved in each case by counsel for the Federal reserve bank.

The proposed Regulation F, relating to trust powers of national banks was passed over after a detailed informal discussion as to various new provisions incorporated therein.

The existing Regulation G, Series of 1924, on the subject of loans on farm land and other real estate, being unnecessary in view of the amendments to the Federal Reserve Act contained in the McFadden Act, was, upon motion, eliminated from the proposed new regulations.

The proposed Regulation H, relating to membership of State banks and trust companies, which contains numerous changes due to the enactment of the McFadden Act, was passed over without discussion.

The proposed Regulation I was considered section by section, after which it was adopted in the following form:

REGULATION I, SERIES OF 1927

(Superseding Regulation I of 1924)

INCREASE OR DECREASE OF CAPITAL STOCK OF FEDERAL RESERVE BANKS AND CANCELLATION OF OLD AND ISSUE OF NEW STOCK CERTIFICATES

SECTION I. INCREASE OF CAPITAL STOCK

(a) NEW NATIONAL BANKS.- Each new national bank, while in process of organization (including each nonmember State bank converting into a national bank,[10] while in process of such conversion) shall file with the Federal reserve bank of its district an application to the Federal Reserve Board on F.R.B. Form 30 (or as to a nonmember State bank converting into a national bank, on F.R.B. Form 30a), made a part of this regulation, for an amount of capital stock of the Federal reserve bank of its district equal to 6 per cent of the paid-up capital stock and surplus of such new national bank. Such application shall be forwarded promptly to the Federal Reserve Board, and if it is found to be in proper form the Federal Reserve Board will grant its approval effective if and when the Comptroller of the Currency issues to such bank his certificate of authority to commence business. If its application is approved, the applying bank shall thereupon make a payment to the Federal reserve bank of its district of one-half of the amount of its subscription, i.e., 3 per cent of the amount of its paid-up capital and surplus; and upon receipt of this payment the Federal reserve bank will issue a receipt therefor, place the amount in a suspense account, and notify the Federal Reserve Board that it has been received. When the Comptroller of the Currency issues to such applying bank his certificate of authority to commence business the Federal reserve bank shall issue a stock certificate to the applying bank, and the capital stock of the Federal reserve bank represented by such certificate shall be considered as issued as of the date upon which the Comptroller of the Currency issues his certificate of authority to commence business. The remaining half of the subscription of the applying bank shall be subject to call when deemed necessary by the Federal Reserve Board.

---

10 Whenever any State member bank is converted into a national bank under sec. 5154 of the Revised Statutes, as amended by sec. 8 of the Federal reserve act, it may continue to hold as a national bank its shares of Federal reserve bank stock previously held as a State bank, and need not file any application for Federal reserve bank stock, unless the aggregate amount of its capital and surplus is increased, in which event it should file an application for additional stock, as provided in Section I (c). The certificate of stock issued in the old name of the member bank, however, should be surrendered and canceled, and a new certificate should be issued in lieu thereof, in the new name of the member bank, as provided in Section III.

(b) STATE BANKS BECOMING MEMBERS.- Any State bank or trust company desiring to become a member of the Federal reserve system shall make application as provided in Regulation H, and when such application has been approved by the Federal Reserve Board and all requirements of Regulation H have been complied with the Federal reserve bank shall issue an appropriate certificate of stock as provided in Regulation H.

(c) INCREASE OF CAPITAL OR SURPLUS BY MEMBER BANKS.- Whenever any member bank shall increase the aggregate amount of its paid-up capital stock and surplus, it shall file with the Federal reserve bank of which it is a member an application on F.R.B. Form 56, made a part of this regulation, for an additional amount of the capital stock of the Federal reserve bank of its district equal to 6 per cent of such increase. After such application has been approved by the Federal reserve agent and by the Federal Reserve Board, the applying member bank shall pay to the Federal reserve bank of its district one-half of the amount of its additional subscription, and when this amount has been paid the appropriate certificate of stock shall be issued by the Federal reserve bank. The remaining half of such additional subscription shall be subject to call when deemed necessary by the Federal Reserve Board.

(d) CONSOLIDATION OF MEMBER BANKS.- Whenever two or more member banks consolidate and such consolidation results in the consolidated bank acquiring by operation of law [11] the Federal reserve bank stock owned by the other consolidating bank or banks, and which also results in the consolidated bank having an aggregate capital and surplus in excess of the aggregate capital and surplus of the consolidating member banks, such consolidated bank shall file an application for additional stock, as provided in Section I (c).

---

11 Section 5 of the Federal reserve act provides that "Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated." This provision prevents a transfer of Federal reserve bank stock by purchase, but does not prevent a transfer by operation of law. When there is a merger of member banks involving the liquidation of one of such banks and the purchasing of the assets of the liquidating bank by the bank continuing in existence, it is necessary for the liquidating bank to surrender its Federal reserve bank stock and for the purchasing bank to apply for new stock. One the other hand, if member banks consolidate, under a statute which does not require the liquidation of any of the consolidating banks, and the assets and obligations of the consolidating banks are transferred to the consolidated bank by operation of law, the consolidated bank becomes the owner of the Federal reserve bank stock of the consolidating banks as soon as the consolidation takes effect and such stock technically need not be surrendered. The certificates of stock issued in the names of the consolidating banks, however, should be surrendered and canceled, and a new certificate should be issued in lieu thereof, in the new name of the consolidated bank, as provided in Section III. A consolidation of national banks under the act of Congress entitled "An Act to provide for the consolidation of national banking associations," approved November 7, 1918, meets all of these conditions.

(e) CERTIFYING INCREASES OF FEDERAL RESERVE BANK STOCK.- Whenever the capital stock of any Federal reserve bank shall be increased the board of directors of such Federal reserve bank shall certify such increase to the Comptroller of the Currency on F.R.B. Form 58, which is made a part of this regulation. Such certifications shall be made as of the last days of June and December of each year. A duplicate copy of each certificate shall be forwarded to the Federal Reserve Board.

SECTION II. DECREASE OF CAPITAL STOCK

(a) REDUCTION OFCAPITAL OR SURPLUS BY MEMBER BANK.- Whenever a member bank reduces the amount of its paid-up capital stock and, in the case of reduction of the paid-up capital of a national bank, such reduction has been approved by the Comptroller of the Currency and by the Federal Reserve Board in accordance with the provisions of section 28 of the Federal reserve act, it shall file with the Federal reserve bank of which it is a member an application for the surrender and cancellation of stock on F.R.B. Form 60, which is made a part of this regulation. When a member bank reduces the amount of its surplus, it is not required to, but may at its option, file with the Federal reserve bank of which it is a member an application for the surrender and cancellation of stock on said F.R.B. Form 60. When an application so filed as the result of a reduction in a member bank's paid-up capital stock or surplus has been approved by the Federal reserve agent and the Federal Reserve Board, the Federal reserve bank shall accept and cancel the stock which the applying bank is entitled to surrender and shall refund to the member bank the proportionate amount due such bank on account of the stock canceled.

(b) INSOLVENCY OF MEMBER BANK. - Whenever a member bank shall be declared insolvent and a receiver appointed by the proper authorities, such receiver shall, within six months from the date of his appointment, file with the Federal reserve bank of which the insolvent bank is a member an application on F.R.B. Form 87, which is made a part of this regulation, for the surrender and cancellation of the stock held by such insolvent member bank, and for the refund of all balances due to it. If the receiver shall fail to make such application within the time specified, the Federal reserve agent shall report the facts to the Federal Reserve Board with a recommendation as to the action to be taken, whereupon the Federal Reserve Board will either issue an order to cancel such stock or, if the circumstances warrant it, grant the receiver additional time in which to file such an application. Upon approval of such an application by the Federal reserve agent and the Federal Reserve Board, or upon the issuance of such an order by the Federal Reserve Board, the Federal reserve bank shall cancel such stock and shall adjust accounts between the member bank and the Federal reserve bank by applying to any indebtedness of the insolvent member bank to such Federal reserve bank all cash-paid subscriptions made by it on the stock canceled with one-half of 1 per cent per month from the period of last dividend, not to exceed the book value thereof, and the balance, if any, shall be paid to the duly authorized receiver of such insolvent member bank.

(c) VOLUNTARY LIQUIDATION OF MEMBER BANK.- Whenever a member bank goes into voluntary liquidation, the liquidating agent or some other person duly authorized by the stockholders or board of directors to act on behalf of such bank shall, within six months from the date of the vote to place

such bank in voluntary liquidation, file with the Federal reserve bank of which the liquidating bank is a member an application on F.R.B. Form 86, if a national bank, and on F.R.B. Form 143, if a State bank, which forms are made a part of this regulation, for the surrender and cancellation of the stock held by it and for the refund of all balances due to such liquidating member bank. If such application is not filed within the time specified, the Federal reserve agent shall report the facts to the Federal Reserve Board with a recommendation as to the action to be taken, whereupon the Federal Reserve Board will either issue an order to cancel such stock, or, if the circumstances warrant it, grant additional time in which to file such an application. Upon approval of such an application by the Federal reserve agent and the Federal Reserve Board, or upon the issuance of such an order by the Federal Reserve Board, the Federal reserve bank shall cancel such stock and shall adjust accounts between the liquidating member bank and the Federal reserve bank by applying to the indebtedness of the liquidating member bank to such Federal reserve bank all cash-paid subscriptions made by it on the stock canceled with one-half of 1 per cent per month from the period of last dividend, not to exceed the book value thereof, and the balance, if any, shall be paid to the duly authorized liquidating agent of such liquidating member bank.

(d) CONSOLIDATION OF MEMBER BANKS. - Whenever there is a consolidation of two or more member banks which results in the consolidated bank acquiring by operation of law (see note 11 on p. __) the Federal reserve bank stock owned by the other consolidating banks, and which also results in the consolidated bank having a paid-up capital less than the aggregate paid-up capital of the consolidating member banks, the consolidated bank shall file with the Federal reserve bank of which it is a member an application for the surrender and cancellation of stock on F.R.B. Form 60a, which is made a part of this regulation. Upon the approval of this application by the Federal reserve agent and the Federal Reserve Board, the Federal reserve bank shall accept and cancel the stock which the applying bank is entitled to surrender, and shall refund to the applying bank the proportionate amount due such bank on account of the stock canceled.

(e) CERTIFYING REDUCTIONS OF FEDERAL RESERVE BANK STOCK. - All reductions of the capital stock of a Federal reserve bank shall, in accordance with the provisions of section 6 of the Federal reserve act, be certified to the Comptroller of the Currency by the board of directors of such Federal reserve bank on F.R.B. Form 59, which is made a part of this regulation. Such certifications shall be made as of the last days of June and December of each year. A duplicate copy of each certificate shall be forwarded to the Federal Reserve Board.

SECTION III. CANCELLATION OF OLD AND ISSUE OF NEW STOCK CERTIFICATES

Whenever a member bank changes its name or, by consolidation with another member bank, acquires by operation of law (see note 11 on p. __) the Federal reserve bank stock previously held by such other member bank, it shall surrender to the Federal reserve bank the certificate of Federal reserve bank stock which was issued to it under its old name, or which was issued to such other member bank. The certificate so surrendered shall be indorsed by the member bank surrendering it or by the member bank to which it was originally issued and shall be accompanied by proper

proof of the change of name or consolidation. Upon receipt of such certificate of stock so indorsed, together with such proof, the Federal reserve bank shall cancel the certificate so surrendered and shall issue in lieu thereof to and in the name of the member bank surrendering it a new certificate for the number of shares represented by the certificate so surrendered, or if the member bank is entitled to surrender some of the stock which is represented by the surrendered certificate, and an application for the surrender and cancellation of such stock is at the same time made in accordance with this regulation, the new certificate shall be for the number of shares represented by the surrendered certificate less the number of shares canceled pursuant to such application. All cases where certificates of stock are surrendered and new certificates issued in lieu thereof and in a different name shall be reported to the Federal Reserve Board by the Federal reserve agent.

The proposed Regulation J, relating to check clearing and collection, was also passed over.

Regulation K, in the form recently promulgated by the Board, as amended August 11th, was, upon motion, readopted as follows:

REGULATION K, SERIES OF 1927

(Superseding Regulation K of 1924)

BANKING CORPORATIONS AUTHORIZED TO DO FOREIGN BANKING BUSINESS UNDER THE TERMS OF SECTION 25(a) OF THE FEDERAL RESERVE ACT

SECTION I. ORGANIZATION

Any number of natural persons, not less in any case than five, may form a Corporation* under the provisions of section 25(a) for the purpose of engaging in international or foreign banking or other international or foreign financial operations or in banking or other financial operations in a dependency or insular possession of the United States either directly or through the agency, ownership, or control of local institutions in foreign countries or in such dependencies or insular possessions.

SECTION II. ARTICLES OF ASSOCIATION

Any persons desiring to organize a corporation for any of the purposes defined in section 25(a) shall enter into articles of association (see F.R.B. Form 151 which is suggested as a satisfactory form of articles of association) which shall specify in general terms the objects for which the Corporation is formed, and may contain any other provisions not inconsistent with law which the Corporation may see fit to adopt for the

* Whenever these regulations refer to a corporation spelled with a capital C, they relate to a corporation organized under section 25(a) of the Federal Reserve act.

regulation of its business and the conduct of its affairs. The articles of association shall be signed by each person intending to participate in the organization of the Corporation and when signed shall be forwarded to the Federal Reserve Board in whose office they shall be filed.

SECTION III. ORGANIZATION CERTIFICATE

All of the persons signing the articles of association shall under their hands make an organization certificate on F.R.B. Form 152, which is made a part of this regulation, and which shall state specifically:

First. The name assumed by the Corporation.

Second. The place or places where its operations are to be carried on.

Third. The place in the United States where its home office is to be located.

Fourth. The amount of its capital stock and the number of shares into which it shall be divided.

Fifth. The names and places of business or residences of persons executing the organization certificate and the number of shares to which each has subscribed.

Sixth. The fact that the certificate is made to enable the persons subscribing the same and all other persons, firms, companies, and corporations who or which may thereafter subscribe to or purchase shares of the capital stock of such Corporation to avail themselves of the advantages of this section.

The persons signing the organization certificate shall acknowledge the execution thereof before a judge of some court of record or notary public who shall certify thereto under the seal of such court or notary. Thereafter the certificate shall be forwarded to the Federal Reserve Board to be filed in its office.

SECTION IV. TITLE

Inasmuch as the name of the Corporation is subject to the approval of the Federal Reserve Board, a preliminary application for that approval should be filed with the Federal Reserve Board on F.R.B. Form 150, which is made a part of this regulation. This application should state merely that the organization of a Corporation under the proposed name is contemplated and may request the approval of that name and its reservation for a period of 30 days. No Corporation which issues its own bonds, debentures, or other such obligations will be permitted to have the word "bank" as a part of its title. No Corporation which has the word "Federal" in its title will be permitted also to have the word "bank" as a part of its title. So far as possible the title of the Corporation should indicate the nature or reason of the business contemplated and should in no case resemble the name of any other corporation to the extent that it might result in misleading or deceiving the public as to its identity, purpose, connections, or affiliations.

SECTION V. AUTHORITY TO COMMENCE BUSINESS

After the articles of association and organization certificate have

been made and filed with the Federal Reserve Board, and after they have been approved by the Federal Reserve Board and a preliminary permit to begin business has been issued by the Federal Reserve Board, the association shall become and be a body corporate, but none of its powers except such as are incidental and preliminary to its organization shall be exercised until it has been formally authorized by the Federal Reserve Board by a final permit generally to commence business.

Before the Federal Reserve Board will issue its final permit to commence business, the president or cashier, together with at least three of the directors, must certify (a) that each director elected is a citizen of the United States; (b) that a majority of the shares of stock is owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States; and (c) that of the authorized capital stock specified in the articles of association at least 25 per cent has been paid in in cash and that each shareholder has individually paid in in cash at least 25 per cent of his stock subscription. Thereafter the cashier shall certify to the payment of the remaining installments as and when each is paid in, in accordance with law.

SECTION VI. CAPITAL STOCK

No Corporation may be organized under the terms of section 25(a) with a capital stock of less than $2,000,000. The par value of each share of stock shall be specified in the articles of association, and no Corporation will be permitted to issue stock of no par value. If there is more than one class of stock, the name and amount of each class and the obligations, rights, and privileges attaching thereto shall be set forth fully in the articles of association. Each class of stock shall be so named as to indicate to the investor as nearly as possible what is its character and to put him on notice of any unusual attributes.

SECTION VII. TRANSFERS OF STOCK

Section 25(a) provides in part that-

A majority of the shares of the capital stock of any such corporation shall at all times be held and owned by the citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States.

In order to insure compliance at all times with the requirements of this provision after the organization of the Corporation, shares of stock shall be issuable and transferable only on the books of the Corporation. Every application for the issue or transfer of stock shall be accompanied by an affidavit of the party to whom it is desired to issue or transfer stock, or by his or its duly authorized agent, stating--

In the case of an individual.- (a) Whether he is or is not a citizen of the United States and, if a citizen of the United States, whether he is a natural-born citizen or a citizen by naturalization, and if naturalized,

whether he remains for any purpose in the allegiance of any foreign sovereign or State; (b) whether there is or is not any arrangement under which he is to hold the shares or any of the shares which he desires to have issued or transferred to him, in trust for or in any way under the control of any foreign State or any foreigner, foreign corporation, or any corporation under foreign control; and if so, the nature thereof.

In the case of a corporation.- (a) Whether such corporation is or is not chartered under the laws of the United States or of a State of the United States. If it is not, no further declaration is necessary, but if it is, it must also be stated (b) whether the controlling interest in such corporation is or is not owned by citizens of the United States, and (c) whether there is or is not any arrangement under which such corporation will hold the shares or any of the shares if issued or transferred to such corporation in trust for or in any way under the control of any foreign State or any foreigner, or foreign corporation, or any corporation under foreign control; and if so, the nature thereof.

In the case of a firm or company.- (a) Whether the controlling interest in such firm or company is or is not owned by citizens of the United States; and, if so, (b) whether there is or is not any arrangement under which such firm or company will hold the shares or any of the shares if issued or transferred to such firm or company in trust for or in any way under the control of any foreign State or any foreigner, or foreign corporation, or any corporation under foreign control; and if so, the nature thereof.

The board of directors of the Corporation, whether acting directly or through an agent, may, before making any issue or transfer of stock, require such further evidence as in their discretion they may think necessary in order to determine whether or not the issue or transfer of the stock would result in a violation of the law. No issue or transfer of stock which would cause 50 per cent or more of the total amount of stock issued or outstanding to be held contrary to the provisions of the law or these regulations shall be made upon the books of the Corporation. The decision of the board of directors in each case shall be final and conclusive and not subject to any question by any person, firm, or corporation on any ground whatsoever.

If at any time by reason of the fact that the holder of any shares of the Corporation ceases to be a citizen of the United States, or, in the opinion of the board of directors, becomes subject to the control of any foreign State or foreigner or foreign corporation or corporation under foreign control, 50 per cent or more of the total amount of capital stock issued or outstanding is held contrary to the provisions of the law or these regulations, the board of directors may, when apprised of that fact, forthwith serve on the holder of the shares in question a notice in writing requiring such holder within two months to transfer such shares to a citizen of the United States, or to a firm, company or corporation approved by the board of directors as an eligible stockholder. When such notice has been given by the board of directors the shares of stock so held shall cease to confer any vote until they have been transferred as required above and if on the expiration of two months after such notice the shares shall not have been so transferred, the shares shall be forfeited to the Corporation.

The board of directors shall prescribe in the by-laws of the Corpora-

tion appropriate regulations for the registration of the shares of stock in accordance with the terms of the law and these regulations. The by-laws must also provide that the certificates of stock issued by the Corporation shall contain provisions sufficient to put the holder on notice of the terms of the law and the regulations of the Federal Reserve Board defining the limitations upon the rights of transfer.

SECTION VIII. OPERATIONS IN THE UNITED STATES

No Corporation shall carry on any part of its business in the United States except such as shall be incidental to its international or foreign business. Agencies may be established in the United States with the approval of the Federal Reserve Board for specific purposes, but not generally to carry on the business of the Corporation.

SECTION IX. INVESTMENTS IN THE STOCK OF OTHER CORPORATIONS

It is contemplated by the law that a Corporation shall conduct its business abroad either directly or indirectly through the ownership or control of corporations, and it is accordingly provided that with the consent of the Federal Reserve Board a Corporation may invest in the stock, or other certificates of ownership, of any other corporation organized-

(a) Under the provisions of section 25(a) of the Federal reserve act;

(b) Under the laws of any foreign country or a colony or dependency thereof;

(c) Under the laws of any State, dependency, or insular possession of the United States;

provided, first, that such other corporation is not engaged in the general business of buying or selling goods, wares, merchandise, or commodities in the United States; and second, that it is not transacting any business in the United States except such as is incidental to its international or foreign business.

Except with the approval of the Federal Reserve Board, no Corporation shall invest an amount in excess of 15 per cent of its capital and surplus in the stock of any corporation engaged in the business of banking, or an amount in excess of 10 per cent of its capital and surplus in the stock of any other kind of corporation.

No Corporation shall purchase any stock in any other corporation organized under the terms of section 25(a) or under the laws of any State, which is in substantial competition therewith, or which holds stock or certificates of ownership in corporations which are in substantial competition with the purchasing Corporation. This restriction, however, does not apply to corporations organized under foreign laws.

SECTION X. BRANCHES

No Corporation shall establish any branches except with the approval of the Federal Reserve Board , and in no case shall any branch be established in the United States.

SECTION XI. ISSUE OF DEBENTURES, BONDS AND PROMISSORY NOTES

A Corporation is not required by law or by this regulation to make application to or obtain the approval of the Federal Reserve Board before making an issue of its debentures, bonds, notes or other obligations, but Corporations issuing their debentures, bonds, notes or other obligations must comply with the rules, regulations and conditions hereinafter set forth.

(a) General Conditions. All debentures, bonds, notes or other such obligations issued by a Corporation (except notes payable to banks or bankers within one year) shall:

(1) Be payable only in gold coin of the United States of the standard of weight and fineness existing at the time of issue;

(2) Be payable not more than twenty years after the date of issue;

(3) Be secured by collateral which shall:

(i) Consist of lawful money of the United States and/or securities, notes, drafts, bills of exchange, acceptances, including bankers' acceptances, and other evidences of indebtedness and/or shares of stock in which the Corporation is authorized by law to invest its funds;

(ii) Have an aggregate market value equal at all times to not less than one hundred and ten per cent of the aggregate principal amount of the obligations issued or to be issued against such securities; and

(iii) Be transferred and delivered free of any prior lien, charge or encumbrance thereon of any kind whatsoever, to a financially responsible bank or trust company, which is a member of the Federal reserve system, as Trustee under a Trust Indenture executed by the Corporation as security for the obligations of the Corporation issued or to be issued thereunder, which Trust Indenture shall prescribe the general form of such obligations and shall require that every such obligation shall be authenticated by the certificate of the Trustee noted thereon.

(b) Requirements after issuance. Within ten days after the issuance of any such debentures, bonds, notes or other obligations (other than promissory notes payable to banks or bankers within one year) the Corporation issuing the same shall file with the Federal Reserve Board:

(1) A statement verified by the affidavit of its President or a Vice President and its Treasurer, Cashier or Comptroller setting forth:

(i) That the requirements of this regulation in respect of the issue of debentures, bonds, notes or other obligations have been complied with in all respects;

(ii) The aggregate amount of the debentures, bonds, notes or obligations issued under the Trust Indenture and the net price received by the Corporation therefor;

(iii) The various items of the collateral security pledged under the Trust Indenture and the market value, at the time of the issue of such obligations, of each and every item thereof; and

(iv) The financial condition of the Corporation and, in detail, all its assets and liabilities (fixed and contingent) as of the day immediately following such issue.

(2) A copy of the Trust Indenture pursuant to which such obligations of the Corporation were issued, certified as correct by the Trustee therein named.

(3) A certificate of the Trustee under such Trust Indenture setting forth:

(i) That it has accepted the trust created by such Trust Indenture and is acting as Trustee thereunder;

(ii) The securities and/or cash which have been delivered to it and which it holds as Trustee under the Trust Indenture; and

(iii) The name and address of the Counsel for the Trustee.

(4) The latest published balance sheet of the Corporation, certified as correct by the President or a Vice President and by the Treasurer, an Assistant Treasurer, the Cashier or Assistant Cashier or the Comptroller of the Corporation.

(5) An opinion of the Counsel for the Trustee under the Trust Indenture to the effect that:

(i) The Trust Indenture has been validly executed in pursuance of due corporate action;

(ii) That all necessary legal formalities have been complied with to make such obligations, when executed by the Corporation and authenticated by the Trustee, valid and enforcible obligations of the Corporation entitled to the benefits afforded by the Trust Indenture; and

(iii) That the transfers executed to the Trustee of the collateral security held by it under the Trust Indenture are in appropriate and sufficient form.

(6) Copies of all prospectuses and other literature issued by the Corporation or its officers or bankers describing or affecting such issue.

In case there shall be any substitution of or change in the securities at any time held under any such Trust Indenture securing an issue of debentures, bonds, notes or other obligations the Corporation, each time it makes a report to the Federal Reserve Board pursuant to the provisions of Section XVI, shall file with the Federal Reserve Board a statement, verified by the affidavit of the President or a Vice President and the Treasurer, Cashier or Comptroller of the Corporation;

(1) Giving the details of such substitution or change; and

(2) Certifying that such substitution or change has not resulted in a reduction of the aggregate market value of the collateral to an amount below one hundred and ten per cent of the aggregate principal amount of the obligations issued or to be issued against such securities.

Such statement shall be accompanied by an acknowledgment by the Trustee under the Trust Indenture that there has been delivered to it and that it holds as such Trustee the additional collateral specified in such statement.

The Federal Reserve Board reserves the right to make public whenever it believes it to be necessary in the public interest any documents filed with it under this subsection.

(c) Advertisements. No circular, prospectus, letter, advertisement or other statement published or issued in any form or manner by a Corporation shall contain any matter to indicate that any issue of debentures, bonds, notes or other obligations by such Corporation or the collateral securing

same has in any way received the approval of the Federal Reserve Board or that the collateral securing same has been appraised or approved in any way by the Federal Reserve Board. This requirement will be strictly enforced in order that there may be no possibility of the public obtaining the impression that the Federal Reserve Board has approved in any way any such issue of debentures, bonds, notes or other such obligations or the collateral securing same.

SECTION XII. SALE OF SECURITIES WITH GUARANTY OR INDORSEMENT

Whenever a Corporation sells, discounts or negotiates with its indorsement or guaranty any securities, notes, drafts, bills of exchange, acceptances, bankers' acceptances or other evidence of indebtedness, it shall enter on its books a proper record thereof, describing in detail each such evidence of indebtedness so sold, discounted or negotiated, the amount thereof, the parties thereto, the maturity thereof, and the nature of the Corporation's liability thereon. Every financial statement of the Corporation submitted to the Federal Reserve Board or made public in any way shall show the aggregate amount of all such liabilities outstanding as of the date on which such statement purports to show the financial condition of the Corporation.

SECTION XIII. ACCEPTANCES

Kinds.- Any Corporation may accept (1) drafts and bills of exchange drawn upon it which grow out of transactions involving the importation or exportation of goods, and (2) drafts and bills of exchange which are drawn by banks or bankers located in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in such countries, dependencies, and possessions, provided, however, that, no Corporation shall exercise its power to accept drafts or bills of exchange if at the time such drafts or bills are presented for acceptance it has outstanding any debentures, bonds, notes, or other such obligations issued by it.

Maturity.- No Corporation shall accept any draft or bill of exchange which grows out of a transaction involving the importation or exportation of goods with a maturity in excess of six months, or shall accept any draft or bill of exchange drawn for the purpose of furnishing dollar exchange with a maturity in excess of three months.

Limitations.- (1) Individual drawers: No acceptances shall be made for the account of any one drawer in an amount aggregating at any time in excess of 10 per cent of the subscribed capital and surplus of the Corporation, unless the transaction be fully secured or represents an exportation or importation of commodities and is guaranteed by a bank or banker of undoubted solvency. (2) Aggregates: Whenever the aggregate of acceptances outstanding at any time (a) exceeds the amount of the subscribed capital and surplus, 50 per cent of all the acceptances in excess of the amount shall be fully secured; or (b) exceeds twice the amount of the subscribed capital and surplus, all the acceptances outstanding in excess of such amount shall be fully secured. (The Corporation shall elect whichever requirement (a) or (b) calls for the smaller amount

of secured acceptances.) In no event shall any Corporation have outstanding at any one time acceptances drawn for the purpose of furnishing dollar exchange in an amount aggregating more than 50 per cent of its subscribed capital and surplus.

Reserves.- Against all acceptances outstanding which mature in 30 days or less a reserve of at least 15 per cent shall be maintained, and against all acceptances outstanding which mature in more than 30 days a reserve of at least 3 per cent shall be maintained. Reserves against acceptances must be in liquid assets of any or all of the following kinds: (1) Cash; (2) balances with other banks; (3) acceptances of other banks or bankers, and (4) obligations of the Government of the United States.

SECTION XIV. DEPOSITS

In the United States.- No Corporation shall receive in the United States any deposits except such as are incidental to or for the purpose of carrying out transactions in foreign countries or dependencies of the United States where the Corporation has established agencies, branches, correspondents, or where it operates through the ownership or control of subsidiary corporations. Deposits of this character may be made by individuals, firms, banks, or other corporations, whether foreign or domestic, and may be time deposits or on demand.

Outside the United States.- Outside the United States a Corporation may receive deposits of any kind from individuals, firms, banks, or other corporations, provided, however, that if such corporation has any of its bonds, debentures, or other such obligations outstanding it may receive abroad only such deposits as are incidental to the conduct of its exchange, discount, or loan operations.

Reserves.- Against all deposits received in the United States a reserve of not less than 13 per cent must be maintained. This reserve may consist of cash in vault, a balance with the Federal reserve bank of the district in which the head office of the Corporation is located, or a balance with any member bank. Against all deposits received abroad the Corporation shall maintain such reserves as may be required by local laws and by the dictates of sound business judgment and banking principles.

SECTION XV. GENERAL LIMITATIONS AND RESTRICTIONS

Liabilities of one borrower.- The total liabilities to a Corporation of any person, company, firm, or corporation for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed 10 per cent of the amount of its subscribed capital and surplus: Provided, however, That the discount of bills of exchange drawn in good faith against actually existing values, the discount of commercial or business paper actually owned by the person negotiating the same, and the purchase of readily marketable bonds, notes, and other investment securities offered for sale in the open market, shall not be considered as money borrowed within the meaning of this paragraph. The liability of a customer on account of an acceptance made by the Corporation for his account is not a liability

for money borrowed within the meaning of this paragraph unless and until he fails to place the Corporation in funds to cover the payment of the acceptance at maturity or unless the Corporation itself holds the acceptance.

Aggregate liabilities of the Corporation.- The aggregate of the Corporation's liabilities outstanding on account of acceptances, average domestic and foreign deposits, debentures, bonds, notes, guaranties, indorsements, and other such obligations shall not exceed at any one time ten times the amount of the Corporation's subscribed capital and surplus. In determining the amount of the liabilities within the meaning of this paragraph, indorsements of bills of exchange having not more than six months to run, drawn and accepted by others than the Corporation, shall not be included.

Operations abroad.- Except as otherwise provided in the law and these regulations, a Corporation may exercise abroad not only the powers specifically set forth in the law but also such incidental powers as may be usual in the determination of the Federal Reserve Board in connection with the transaction of the business of banking or other financial operations in the countries in which it shall transact business. In the exercise of any of these powers abroad a Corporation must be guided by the laws of the country in which it is operating and by sound business judgment and banking principles.

SECTION XVI. REPORTS AND EXAMINATIONS

Reports.- Each Corporation shall make at least two reports annually to the Federal Reserve Board at such times and in such form as it may require.

Examinations.- Each Corporation shall be examined at least once a year by examiners appointed by the Federal Reserve Board. The cost of examinations shall be paid by the Corporation examined.

SECTION XVII. AMENDMENTS TO REGULATIONS

These regulations are subject to amendment by the Federal Reserve Board from time to time, provided, however, that no such amendment shall prejudice obligations undertaken in good faith under regulations in effect at the time they were assumed.

Regulation L, in which no changes from the present form were suggested, was, upon motion, readopted as follows:

REGULATION L, SERIES OF 1927

(Superseding Regulation L of 1924)

INTERLOCKING BANK DIRECTORATES UNDER THE CLAYTON ACT

SECTION I. DEFINITIONS

Within the meaning of this regulation-

The term "member bank" shall apply to any national bank and any State bank or trust company which is a member of the Federal reserve system.

The term "national bank" shall be construed to apply not only to national banking associations but also to banks, banking associations, and trust companies organized or operating under the laws of the United States, including all banks and trust companies doing business in the District of Columbia, regardless of the sources of their charters.

The term "resources" shall be contrued to mean an amount equal to the sum of the deposits, capital, surplus, and undivided profits.

The term "State bank" shall include any bank, banking association, or trust company incorporated under State law.

The term "private banker" shall apply to any unincorporated individual engaging in one or more phases of the banking business as that term is generally understood and to any member of an unincorporated firm engaging in such business.

The term "Edge Act" shall mean section 25(a) of the Federal reserve act, as amended December 24, 1919.

The term "Edge corporation" shall mean any corporation organized under the provisions of the Edge Act.

The term "city of over 200,000 inhabitants" includes any city, incorporated town, or village of more than 200,000 inhabitants, as shown by the last preceding decennial census of the United States. Any bank located anywhere within the corporate limits of such city is located in a city of over 200,000 inhabitants within the meaning of the Clayton Act, even though it is located in a suburb or an outlying district at some distance from the principal part of the city.

SECTION II. PROHIBITIONS OF CLAYTON ACT

Under section 8 of the Clayton Antitrust Act-

(1) No person who is a director or other officer or employee of a national bank having resources aggregating more than $5,000,000 can legally serve at the same time as director, officer, or employee of any other national bank, regardless of its location.

(2) No person who is a director in a State bank or trust company having resources aggregating more than $5,000,000 or who is a private banker having resources aggregating more than $5,000,000 can legally serve at the same time as director of any national bank, regardless of its location.

(3) No person can legally be a director, officer, or employee of a national bank located in a city of more than 200,000 inhabitants who is at the same time a private banker in the same city or a director, officer, or employee of any other bank (State or national) located in the same city, regardless of the size of such bank.

The eligibility of a director, officer, or employee under the foregoing provisions is determined by the average amount of deposits, capital, surplus, and undivided profits as shown in the official statements of such bank, banking association, or trust company filed as provided by law during the fiscal year next preceding the date set for the annual election of directors, and when a director, officer, or employee has

been elected or selected in accordance with the provisions of the Clayton Act it is lawful for him to continue as such for one year thereafter under said election or employment.

When any person elected or chosen as a director, officer, or employee of any bank is eligible at the time of his election or selection to act for such bank in such capacity his eligibility to act in such capacity is not affected by reason of any change in the affairs of such bank from whatsoever cause until the expiration of one year from the date of his election or employment.

SECTION III. EXCEPTIONS

The provisions of section 8 of the Clayton Act-

(1) Do not apply to mutual savings banks not having a capital stock represented by shares.

(2) Do not prohibit a person from being at the same time a director, officer, or employee of a national bank and not more than one other national bank, State bank, or trust company, where the entire capital stock of one is owned by the stockholders of the other.

(3) Do not prohibit a person from being at the same time a class A director of a Federal reserve bank and also an officer or director, or both an officer and a director, in one member bank.

(4) Do not prohibit a person who is serving as director, officer, or employee of a national bank, even though it has resources aggregating over $5,000,000, from serving at the same time as director, officer, or employee of any number of State banks and trust companies, provided such State institutions are not located in the same city of over 200,000 inhabitants as the national bank and do not have resources aggregating in the case of any one bank more than $5,000,000.

(5) Do not prohibit a person from serving at the same time as director, officer, or employee of any number of national banks, provided no two of them are located in the same city of over 200,000 inhabitants and no one of them has resources aggregating over $5,000,000.

(6) Do not prohibit a person who is not a director, officer, or employee of any national bank from serving at the same time as officer, director, or employee of any number of State banks or trust companies, regardless of their locations and resources.

(7) Do not prohibit a person who is an officer or employee but not a director of a State bank from serving as director, officer, or employee of a national bank, even though either or both of such banks have resources aggregating over $5,000,000, provided both banks are not located in the same city of over 200,000 inhabitants.

(8) Do not prohibit a person who is an officer or employee but not a director of a national bank from serving at the same time as director, officer, or employee of a State bank, even though either or both of such banks have resources aggregating over $5,000,000, provided both banks are not located in the same city of over 200,000 inhabitants.

(9) Do not apply to persons who have obtained the consent or approval of the Federal Reserve Board under the provisions of the Kern amendment, section 25 of the Federal reserve act, or the Edge Act, as hereinafter provided.

EXCEPTIONS CUMULATIVE.- The above exceptions are cumulative.

SECTION IV. PERMISSION OF THE FEDERAL RESERVE BOARD UNDER KERN AMENDMENT

By the Kern amendment, approved May 15, 1916, as amended May 26, 1920, the Clayton Act was amended so as to authorize the Federal Reserve Board to permit any private banker or any officer, director, or employee of any member bank or class A director of a Federal reserve bank to serve as director, officer, or employee of not more than two other banks, banking associations, or trust companies coming within the prohibitions of the Clayton Act, provided such other banks are not in substantial competition with such private banker or member bank.

SUBSTANTIAL COMPETITION.- If the institutions involved are not in substantial competition, the board is authorized, in its discretion, to grant, withhold, or revoke such consent; but if they are in substantial competition, the board has no discretion in the matter and must refuse such consent.

The board has adopted the following statement of general principles for its guidance in determing whether banks are in substantial competition within the meaning of the Kern amendment to the Clayton Act:

"In general, two banks will be deemed to be in substantial competition if they actually compete for a considerable amount of business, i.e., if a considerable portion of the business of each is of the same character and in doing or seeking such business they actually compete for the same customers or prospective customers, regardless of whether or not it is probable or possible that an interlocking directorate between them would result in injury to the public by making credit less available. If the statements of two banks show that each has a considerable amount of the same class of deposits or loans and it appears from the evidence submitted that they are so located as to be in a position to serve the same customers conveniently, the board will presume, in the absence of evidence to the contrary, that they are in substantial competition. This presumption may be rebutted, however, by any evidence showing that they are not actually competing for such business, e.g., that they actually serve different classes of customers, that the business in question is not actually sought by one bank but is merely incidental to its other business, or that competition has already been eliminated through common stock ownership. The existence of substantial competition, however, may be shown by evidence other than that described above."

This is not intended as a precise definition of the term "substantial competition," but merely as a broad statement of the general principles which will be observed by the Federal Reserve Board in determining whether banks are in substantial competition. Whether or not substantial competition exists in any particular case is a question of fact which must be determined in the light of all the facts and circumstances involved in such case.

BURDEN OF PROOF.- Inasmuch as the Federal Reserve Board has no power to permit a person to serve two or more banks coming within the prohibitions of the Clayton Act unless the institutions involved are not

in substantial competition, the applicant for such permission has the burden of proving to the board that such institutions are not in substantial competition.

WHEN OBTAINED.- Inasmuch as the Kern amendment excepts from the prohibitions of the Clayton Act only those "who shall first procure the consent of the Federal Reserve Board," it is a violation of the law to serve two or more institutions in the prohibited classes before such consent has been obtained. Such consent should be obtained, therefore, before becoming an officer, director, or employee of more than one bank in the prohibited classes. Such consent may be procured before the person applying therefor has been elected as a class A director of a Federal reserve bank or as a director of any member bank.

APPLICATIONS FOR PERMISSION.- A person wishing to obtain the permission of the Federal Reserve Board to serve banks coming within the prohibitions of the Clayton Act should:

(1) Make formal application on F.R.B. Form 94, or, if a private banker, on F.R.B. Form 94d. Each of these forms is made a part of this regulation.

(2) Obtain from each of the banks involved a statement on F.R.B. Form 94a, which is made a part of this regulation, showing the character of its business, together with a copy of its last published statement of condition, and, if a private banker, make a statement on F.R.B. Form 94e showing the character of his or his firm's business.

(3) Forward all these papers to the Federal reserve agent of his district, who will attach his recommendation on F.R.B. Form 94b, which is made a part of this regulation, and forward them in due course to the Federal Reserve Board.

APPROVAL OR DISAPPROVAL.- As soon as an application is acted upon by the board, the applicant will be advised of the action taken.

If the board approves the application, a formal certificate of permission to serve on the banks involved will be issued to the applicant.

REHEARING.- If the board decides that the banks are in substantial competition and that it can not approve the application, it will, upon petition of the applicant, reconsider its decision and afford him every opportunity to present any additional facts or arguments bearing on the subject.

EFFECT OF PERMITS. - Permission once granted is continuing until revoked, and need not be renewed.

REVOCATION.- All permits, however, are subject to revocation at any time in the discretion of the Federal Reserve Board. The issuance of a permit to any person shall have the effect of revoking any or all permits which may have been issued previously to that person.

SECTION V. PERMITS UNDER SECTION 25 OF THE FEDERAL RESERVE ACT

With the approval of the Federal Reserve Board, any director, officer, or employee of a member bank which has invested in the stock of any corporation principally engaged in international or foreign banking or financial operations or banking in a dependency or insular possession of the United States, under the provisions of section 25 of the Federal reserve act, may serve as director, officer, or employee of any such

foreign bank or financial corporation.

APPLICATIONS FOR APPROVAL.- The approval of the Federal Reserve Board for such interlocking directorates may be obtained through an informal application in the form of a letter addressed to the Federal Reserve Board either by the officer, director, or employee involved, or in his behalf by one of the banks which he is serving. Such application should be sent directly to the Federal Reserve Board.

SECTION VI. PERMITS TO SERVE EDGE CORPORATIONS

With the approval of the Federal Reserve Board-

(1) Any officer, director, or employee of any member bank may serve at the same time as director, officer, or employee of any Edge corporation in whose capital stock the member bank shall have invested.

(2) Any officer, director, or employee of any Edge corporation may serve at the same time as officer, director, or employee of any other corporation in whose capital stock such Edge corporation shall have invested under the provisions of the Edge Act.

APPLICATIONS FOR APPROVAL.- Such approval may be obtained through an informal application in the form of a letter addressed to the Federal Reserve Board either by the director, officer, or employee involved, or in his behalf by one of the banks or corporations involved. Such applications should be sent directly to the Federal Reserve Board.

The proposed Regulation M, in which no changes were suggested, was, on motion, readopted in the following form:

REGULATION M, SERIES OF 1927

(Superseding Regulation M of 1926)

REDISCOUNT OF NOTES SECURED BY ADJUSTED SERVICE CERTIFICATES

SECTION I. STATUTORY PROVISIONS

Under the terms of the World War Adjusted Compensation Act as amended, loans may lawfully be made to veterans upon their adjusted service certificates only in accordance with the provisions of section 502 thereof.

Any national bank, or any bank or trust company incorporated under the laws of any State, Territory, possession, or the District of Columbia is authorized, after the expiration of two years after the date of the certificate, to loan to any veteran upon his promissory note secured by his adjusted service certificate any amount not in excess of the loan value of the certificate, which is stated on the face of the certificate. The law provides that the rate of interest charged upon the loan by the lending bank shall not exceed by more than 2 per cent per annum the rate charged at the date of the loan for the discount of 90-day commercial paper by the Federal reserve bank of the Federal reserve district in which the lending bank is located.

Upon the indorsement of any bank, which shall be deemed a waiver of

demand, notice and protest by such bank as to its own indorsement exclusively, and subject to regulations to be prescribed by the Federal Reserve Board, any such note secured by an adjusted service certificate and held by a bank is made eligible for rediscount with the Federal reserve bank of the Federal reserve district in which such bank is located, whether or not the bank offering the note for rediscount is a member of the Federal reserve system and whether or not it acquired the note in the first instance from the veteran or acquired it by transfer upon the indorsement of any other bank; provided that at the time of rediscount such note has a maturity not in excess of nine months, exclusive of days of grace, and complies in all other respects with the provisions of the law, the regulations of the United States Veterans' Bureau, and the regulations of the Federal Reserve Board.

SECTION II. DEFINITIONS

Within the meaning of this regulation-

(a) The term "the act" shall mean the World War Adjusted Compensation Act as amended;

(b) The term "director" shall mean the Director of the United States Veterans' Bureau;

(c) The term "certificate" shall mean an adjusted service certificate issued under the provisions of section 501 of the World War Adjusted Compensation Act as amended;

(d) The term "veteran" shall mean any person to whom an adjusted service certificate has been issued by the director under the provisions of the World War Adjusted Compensation Act as amended;

(e) The term "bank" shall mean any national bank or any bank or trust company incorporated under the laws of any State, Territory, possession, or the District of Columbia;

(f) The term "note" shall mean a promissory note, negotiable in form, secured by an adjusted service certificate, and evidencing a loan made by a bank on the security of such certificate in full compliance with the provisions of the World War Adjusted Compensation Act as amended and the regulations of the United States Veterans' Bureau.

SECTION III. ELIGIBILITY

In order to be eligible for rediscount at a Federal reserve bank, any such note must-

(a) Arise out of a loan made by a bank to a veteran in full compliance with the provisions of the act and of any regulation which the director may prescribe;

(b) Be secured by the certificate issued to the maker, which certificate must accompany the note;

(c) Be held by the offering bank in its own right at the time it is offered for rediscount;

(d) Be negotiable in form and otherwise in the form approved by the director;

(e) Have a maturity at the time of rediscount not in excess of nine months, exclusive of days of grace;

(f) Evidence a loan the amount of which does not exceed the loan value of the certificate for the year in which such loan was made;

(g) Be payable with interest accruing after the date of the note at a rate stated in the face of the note, which rate must not exceed by more than 2 per cent per annum the rate charged at the date of the loan for the discount of 90-day commercial paper by the Federal reserve bank of the Federal reserve district in which the lending bank is located;

(h) Bear the indorsement of the bank offering it for rediscount, which indorsement shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively;

(i) Be accompanied by the evidence of eligibility required by this regulation and such other evidence of eligibility as may be required by the Federal reserve bank to which it is offered for rediscount; and

(j) Comply in all other respects with the requirements of the law and of this regulation.

SECTION IV. EVIDENCE OF ELIGIBILITY

(a) GENERAL.- The Federal reserve bank to which a note is offered for rediscount must be satisfied either by reference to the note itself or otherwise that the loan evidenced by the note or any sale, discount, or rediscount thereof complies in all respects with the provisions of section 502 of the act and that the note is eligible for rediscount by a Federal reserve bank under the terms of the law and the provisions of this regulation.

(b) AFFIDAVIT OF LENDING BANK.- Any note offered to a Federal reserve bank for rediscount must be accompanied by the affidavit required by section 502 (h) of the act and the regulations of the director, in form approved by the director, made by an officer of the bank which made the loan, before a notary public or other officer designated for the purpose by regulation of the director, stating that-

(1) Such bank has not charged or collected, or attempted to charge or collect, directly or indirectly, any fee or other compensation in respect of any loan, made by such bank to any veteran under section 502 of the act, except the interest authorized by such section;

(2) The person who obtained the loan evidenced by such note is known to be the veteran named in the certificate securing such note;

(3) Such bank has notified the director that it has made a loan to the veteran named in the certificate, as required by the regulations of the director; and

(4) Such bank has notified the veteran by mail at his last known post-office address of any sale, discount, or rediscount of such note by such bank, as required by section 502(b) of the act.

(c) AFFIDAVIT OF OTHER BANKS.- If such note is offered for rediscount by a bank other than the bank which made the loan thereon, it must also be accompanied by an affidavit of an officer of the offering bank and an affidavit of an officer of each other bank which has sold, discounted, or rediscounted such note, which affidavit shall be in form approved by the director and shall state that the bank of which the affiant is an officer has promptly notified the veteran by mail at his last known post-office address of the sale, discount, or rediscount of such note by such bank, as required by section 502(b) of the act.

SECTION V. APPLICATION FOR REDISCOUNT

Every application for the rediscount of such notes shall be made on a form approved by the Federal reserve bank to which such note is offered and shall contain a certificate of the offering bank to the effect that, to the best of its knowledge and belief, such note arose out of a loan made in full compliance with the provisions of the act and the regulations of the director and is eligible for rediscount under the provisions of section 502 of the act and of this regulation.

SECTION VI. PROPER BANK FOR REDISCOUNT

No such note shall be rediscounted by any Federal reserve bank for any bank not located in its own Federal reserve district, except that such notes may be rediscounted by any Federal reserve bank for any other Federal reserve bank.

SECTION VII. RATE OF REDISCOUNT

The rate of interest charged by any Federal reserve bank on any such note rediscounted by it shall be the same as that charged by it for the rediscount of 90-day notes drawn for a commercial purpose, except that when such notes are rediscounted for another Federal reserve bank the rate shall be that fixed by the Federal Reserve Board.

SECTION VIII. REDISCOUNTS FOR NONMEMBER BANKS

No Federal reserve bank shall rediscount such notes for any non-member bank until such bank has furnished to the Federal reserve bank such information as it may request in order to satisfy itself as to the condition of such bank and the advisability of making the rediscount for it.

The proposed new regulation, relating to the collection of non-cash items, was passed over.

REPORTS OF STANDING COMMITTEES:

Dated, October 7th, Recommending changes in stock at Federal Reserve Banks as set forth in the Auxiliary Minute Book of this date. Recommendations approved.

Dated, October 5th, Recommending action on applications for fiduciary powers as set forth in the Auxiliary Minute Book of this date. Recommendations approved.

The meeting adjourned at 1:15 p.m.

Approved:

Governor

Secretary